Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

Insurance for Farmers

LIBRARY
CURRENT SERIAL RECORD
JUL 23 1950
U. S. DEPARTMENT OF AGRICULTURE

FIRE

WINDSTORM

CROP-HAIL

LIABILITY

and LIFE

U. S. DEPARTMENT OF AGRICULTURE

FARMERS' BULLETIN No. 2016

CHECK LIST OF QUESTIONS

1. Have you put all your policies together in a safe place that is known to your wife?
2. Do you know exactly what protection each policy offers?
3. Do you carry the right amount of fire insurance, particularly on household goods and barn contents? How about the windstorm insurance? Property values go up and go down, so if your policy was written some time ago, the insurance may not be enough now—or it may be too high.
4. Have all of your buildings been listed on your fire (and windstorm) policies? Are any listed that should not be because they have been taken down?
5. Are your policies in your name? If property has been mortgaged, did you notify your insurance company?
6. Do you receive all rate credits due you as a result of your buildings having fire-resistive roofs or wall construction, lightning rods, a central heating plant, and fire department service? Sometimes the oversight is due to an agent failing to inspect the property.
7. Do you have enough liability insurance? More insurance can be obtained at very little extra cost.
8. Have you gone over your life insurance matters with your wife? Have you considered changing the settlement arrangements on part of your insurance to a monthly income basis? Are your debts covered by extra term insurance? You may need that as well as your regular insurance that is to take the place of your income.

Washington, D. C. Issued June 1950

For sale by the Superintendent of Documents, U. S. Government Printing Office
Washington 25, D. C. - Price 10 cents

INSURANCE FOR FARMERS

FIRE . . . WINDSTORM . . . CROP-HAIL LIABILITY . . . AND . . . LIFE

By RALPH R. BOTTS, *agricultural economist, Bureau of Agricultural Economics*

CONTENTS

	Page
About risks	1
Spreading the risk	1
When to insure	2
Savings	2
What to insure against	2
Fire and windstorm insurance	3
Farmers' mutual fire and windstorm insurance companies	4
Paying insurance for losses	4
Rates	5
Crop-hail insurance	6
Deductible clauses in windstorm and crop-hail insurance	7
Federal crop insurance	7
Liability insurance	9
Automobile and truck insurance	9
Other liability insurance	11
Comprehensive personal liability	11
Employer's liability	11
Workmen's compensation	11
Life insurance	12
Types of policies	13
Which kind to use	14
Some policy provisions	15
Group life insurance	16
Annuities	16

ABOUT RISKS

A RISK is a chance of financial loss. If a loss is sure to happen and if the time it will come is also known, a fund can be accumulated to meet it. It is not a case for insurance. The same thing is true, of course, if there is no chance of a happening; for example, there is no chance that a concrete dam will be destroyed by fire.

But if there is a definite chance of a financial loss, insurance principles can be used to spread the risk.

SPREADING THE RISK

One man alone cannot well hedge against perils, because they cannot be predicted as well for one person as for a group. Insurance is a way by which the losses that fall heavily upon the few may be shared by many. Regular payments (called premiums or assessments) are accumulated and payments of the claims of those who have losses are made from this fund. The amount an insured person pays is calculated on the basis of the risk, as measured by a mass of figures. For example, suppose experience has shown that, on the average, there will be a $5 loss per $1,000 of insurance each year in a certain area. If insurance for $4,000 is written on a $5,000 house in this area, the loss cost or "pure premium" would be 0.005×$4,000 or $20. If the company is to break even, it will have to charge at least $20 each year and, to cover its own expenses, it would have to add some-

thing to this. The total of the two figures—the pure premium plus the amount for expenses—would be the gross premium which is in the agent's rate book. Of course calculations of the actual rate for fire insurance are not as simple as this, because a great many things influence the probability of the loss.

WHEN TO INSURE?

How large a possible loss should be before it is insured against depends mostly upon circumstances. For one who is living close to poverty, even a small loss may be a disaster. Naturally, those who cannot stand a loss should insure against it, yet often they are the very ones who can't pay the premiums. But they might be more willing to deny themselves further, in order to try to pay premiums, if they knew that the extra for company expenses is moderate.

SAVINGS

If most of the premiums go to pay losses and if little goes to meet company expenses, the cost comes near to being "self insurance," which is merely setting aside a part of our own funds to meet emergencies. If we can build up enough of our own emergency funds, we will not need to help pay others' expenses.

From these emergency funds we can hope to meet any of the risks as they come. So "saving for a rainy day" is merely the building up of a self-insurance fund. Too often, however, the risk is not recognized and so there is no regular effort to self-insure. Real insurance is particularly desirable in connection with the larger risks, as a man's savings are not likely to be large enough to meet them, and the loss may come before the right amount has been reached. It is not a bad idea to bank our savings even while we are paying premiums, until we reach the time when we can carry some of the smaller risks ourselves.

Most farmers probably have some savings to tide them over in case of illness. Or, with the help of the family, or relatives, or neighbors, they may be able to continue selling milk or eggs for income. If so, they have less need for accident or disability-income insurance than most city people do. Many farmers rent their farms when they are too old to work, and then live off the rent. Others sell their farms and either live off the proceeds or buy annuities with the money. Usually a farmer has "plowed back" most of his profits into his farm so the farm often represents his life's savings. If he owns it outright he has less need for buying endowment life insurance.

WHAT TO INSURE AGAINST?

On the other hand, any farmer (or in the case of his death, his dependents) is likely to suffer a severe set-back in case of *fire*, *windstorm* (particularly in some areas), or an *adverse court judgment* resulting from injury to an employee or from an automobile accident, or from *death*. So these hazards may be considered the main ones which farmers should certainly insure against. In some areas, where crops are often damaged by hail, it may be well to insure against this damage also.

FIRE AND WINDSTORM INSURANCE

The fire-insurance policy is probably the most important contract in the world today. At one time companies did not try to use the same language in their contracts, but now a standard policy is used in most States. This policy gives protection against fire and lightning, and most companies, if paid to, will extend it to cover other hazards. They do this by a supplementary agreement, called an endorsement or "rider," which is attached to the policy.

The most common rider is known as the "extended coverage" endorsement. It provides insurance against damage from vehicles, explosion, riot, smoke, aircraft. Usually it includes *windstorm* and *hail damage* in the case of city property, and some companies include these in the case of farm property except crops (for which separate insurance is necessary). It is always for the same amount as mentioned in the policy. Of course there is an extra charge for this rider, something like half of what the fire policy costs. A few assessment companies operated by farmers include windstorm damage along with fire and lightning, in which case no separate payment is charged.

Most commercial companies will insure against windstorm (and hail) damage to farm property, other than crops, separately from any fire insurance. The rate for it is usually about 90 or 95 percent of what would be charged for "extended coverage" against all seven of the hazards mentioned in the paragraph above. The reason for this is that the other five hazards do not strike often and most insurance payments under seven-point extended coverage are made because of loss from either windstorm or hail.

Another common endorsement covers the household contents when the dwelling has already been insured by the same company. Another is the permit which allows the insured family to be away from the insured property longer than the time specified in the policy. Any small changes in the contract—for example, extending the term of insurance from 1 to 3 years by paying the difference in premium would also be handled by an endorsement to the policy.

Fire-insurance premiums or assessments may be paid yearly. But if the premiums are paid in advance, most commercial companies will give 5 years of insurance for four times the yearly cost, or 3 years for the price of 2½ years. In a few States the savings may be more than this. In practically all States, the larger companies allow premiums on a 5-year policy to be paid by installment notes. That is, one-fifth of the premium is payable in cash or by a 3-month note, and the other four-fifths is payable at one-fifth each year for 4 years. No interest is charged on the installments, but the total premium payable for the 5 years is slightly more than four and one-half times the premium on an annual policy.

Regardless of how the premiums are payable, the *mutual* company pays its declared profits back to its policyholders in the form of dividends at the end of the contract period. In the case of life insurance, *stock* companies usually charge somewhat lower rates than the mutuals but they do not declare dividends. Most of the larger life insurance companies are of the mutual type. On the other hand, most of the fire insurance on city property is written by stock companies.

FARMERS' MUTUAL FIRE AND WINDSTORM INSURANCE COMPANIES

About 1,850 so-called farmer's mutual fire-insurance companies in the United States offer relatively low-cost fire insurance on farm property. Most of these are in the northern half of the country. About a fifth of them also offer windstorm insurance. These mutuals are usually local—often doing business in only one or two counties. Practically all of them inspect properties before they accept them for insurance, so their loss per $100 of insurance are usually rather low. Applications for insurance are often accepted by district directors, who may serve without salary, and who generally make the first inspections as well as an inspection before any loss is settled. The salaries of those who work in the office are usually modest. These facts probably explain why the average expenses of the farm mutuals per $100 of insurance are unusually low and why their insurance is so reasonably priced.

These companies are assessment mutuals. This means that, if necessary, members can be assessed an extra amount to meet unusual losses in any year. But most of them have built up strong reserves by charging somewhat more than costs, and these reserves are used instead of extra assessments. For instance, about a fourth of them made no assessments in 1946.

There is more chance of extra assessments in the case of the mutual which offers windstorm or crop-hail insurance in a limited area, because it has a greater chance of widespread loss. So the windstorm and crop-hail mutuals usually do business over a wider area and build up larger reserves per $100 of insurance.

Windstorm insurance can be obtained in some States from mutual companies that write only against windstorm. These specialized companies are particularly important in some Midwestern States, where they have on their books a large part of all the windstorm insurance carried by farmers in these States. Such companies do business in much the same way as the fire mutuals, and are much like them. The principal difference is that, because of the nature of the risk, they usually operate throughout a State or even in several States.

PAYING INSURANCE FOR LOSSES

Most companies—whether stock, general-writing mutual, or farm mutual—pay all losses up to the amount mentioned in the policy. When there is a fire or a windstorm, a good farmer protects his property from further damage as well as he can, and then notifies his company—usually by telephone. The company will ask him to give a "proof of loss' or a statement in regard to the damages within a certain number of days.

These are the things that may keep a farmer from getting full payment in case of claim for fire damage:

1. If the property has been vacant beyond a specified period—usually 60 days.

2. If the risk has been increased, as by storing gasoline in the basement or running a stovepipe through a partition without notifying the company, or by running a corn-drier without a permit from the company.

3. If he has taken out additional insurance without notifying the first company.

4. In some cases, if the title to the property has been changed or a mortgage has been placed on it without notifying the company.

In all forms of property insurance, the company is allowed to pay the claim at the actual value of the property; that is, not to be more than it would cost to repair or replace it, taking the depreciation into account. But the payment is not to be more than the amount stated in the policy. (Figs. 1 and 2.)

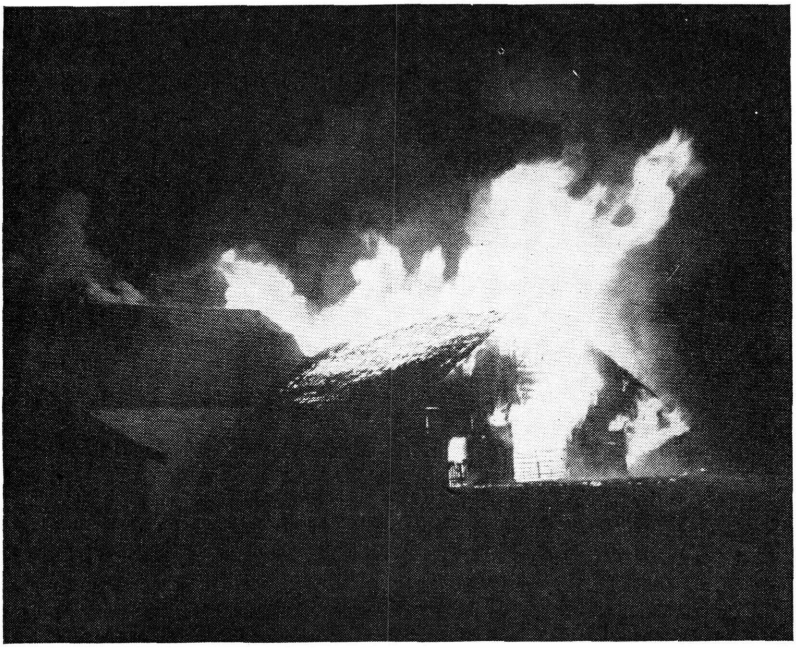

FIGURE 1.—A farm fire can be a spectacular affair—but a costly one. Fire insurance pays you for any loss up to the amount of insurance carried.

RATES

Commercial rates for fire and windstorm insurance depend on the usage made of the building (whether dwelling or barn) and the roof covering (combustibility, in the case of fire insurance; and wind-resistive qualities, in the case of windstorm insurance). Rates for dwellings depend also on wall construction (frame, brick, etc.), which is the principal or only thing considered in the case of a silo. Dwelling contents ordinarily take the dwelling rate, while barn contents usually take the barn rate. If a barn and its contents are valued at $2,000, and $1,500 worth of insurance is placed on them, at the rate of 50 cents per $100, the yearly premium to be paid by the farmer will be $7.50.

A different set of rates is used in each State. The rate schedule used by most companies is one prepared by the State rating and inspection bureau from the experience of its member companies, and these

FIGURE 2.—A windstorm can do a lot of damage in a short time. Does your insurance cover it?

rates have been approved by the State insurance commissioner. But a company may file changes from these rates with the State insurance commissioner and use them when they have been approved.

Most of the farm mutuals charge all members at the same rate, regardless of the classes of property insured. But in recent years classified rates, which more nearly measure the probabilities of loss, have been used more and more. This can make the rates more fair. As an example, through classified rates, a farmer who has gone to extra expense in using fire-resistive materials in building or who has installed lightning rods or other fire equipment receives some money reward for it. Farm mutuals usually write their insurance for 5 (sometimes 3) years, but assessments for paying losses are usually levied each year that they are necessary. Such companies usually do not have to submit their rates for approval by the State insurance commissioner.

CROP-HAIL INSURANCE

Crop-hail insurance may be obtained from many stock and mutual fire insurance companies and, in some States, from specialized crop-hail mutual insurance companies. Farmers in North Dakota, Colorado, and Montana may also obtain crop-hail insurance from State-operated hail companies.

Insurance may be obtained for so much per acre, at rates of from 2 percent or less up to 15 percent or more of the insurance. The rates depend on the susceptibility of the crop to damage, which in turn depends on crop maturity dates in relation to the hail season, and the probability of hail in the area. So the rates vary by areas and by crops.

Usually a farmer cannot save money by obtaining such insurance late in the season, because there is no reduction in the rate. But

farmers are likely to wait and see if the crop is, in their opinion, worth insuring. The loss payable is the amount of insurance multiplied by the percentage of damage. The percentage damage is usually decided upon by sampling methods which are generally satisfactory to farmers. (Fig. 3.)

Small losses from windstorms are frequent. It was found that almost three-fourths of the windstorm claims sent in to a large farm mutual company in Wisconsin during 1940–43, and to two farmers' mutuals in Virginia during 1945–47, were for $25 or less. (Fig. 4.)

DEDUCTIBLE CLAUSES IN WINDSTORM AND CROP-HAIL INSURANCE

In the case of windstorm insurance, many losses are small, such as damage to old roofs, or to barn doors which already needed repairs. So some companies use a "minimum-loss" clause under which no claim is paid for which the loss is less than the amount specified. For example, under a $50 minimum-loss clause the insurance would pay nothing in connection with a $49 claim, but would pay a $50 claim or a larger one in full. Other companies use a "deductible" clause, under which the deductible amount specified is deducted from all claims, regardless of amount. Under a $50 deductible clause, for example, that amount would be deducted from a $75 claim and the insurance company would pay only $25. It would pay nothing in case of a claim for $50 or less. In this respect the deductible clause is like the minimum-loss clause.

The rate is reduced, of course, if either of these claim-reduction clauses is used. So a farmer who keeps his buildings in good shape is likely to be in favor of them. Under this clause a major loss, which would hurt him most, would be covered in full (almost in full in the case of the deductible clause); whereas a small loss, which is not severe and which too often comes because a property has not been kept in good repair, is borne by the farmer himself.

Clauses like these are also used in crop-hail insurance, but they are on a percentage basis. For example, under a 10-percent deductible clause, there would be no payment for hail damage if the insured crop were only 9 or 10 percent damaged. But if the damage amounted to 20 percent, the company would deduct 10 percent and then pay the remaining 10 percent of the amount of the insurance stated in the policy.

FEDERAL CROP INSURANCE

The only insurance on growing crops now offered by private companies is against damage by hail and, in some States, by fire to standing grain. However, Federal crop insurance on an "all-risk," rather than a specific-risk, basis has been tried out for a number of years and in 1950 was available on wheat in approximately 287 counties; cotton, 81 counties; flax, 60 counties; corn, 74 counties; tobacco, 52 counties; beans, 20 counties; and on multiple crops (several crops combined), in 55 counties. Gradual expansion into other counties and to additional crops has been authorized and, if the program proves

FIGURE 3.—Hail destroyed this crop. At a time like this, there is little or nothing to sell, but crop-hail insurance might at least cover the cost of growing it.

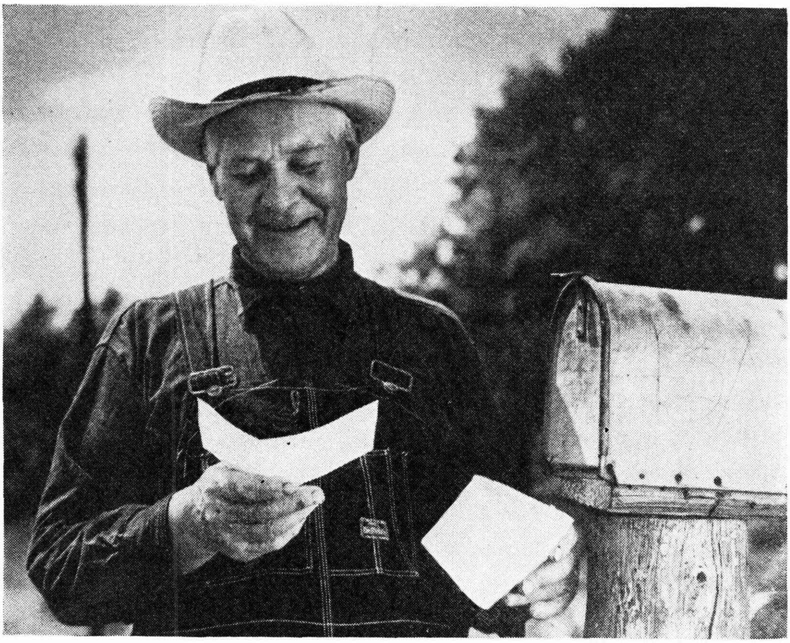

FIGURE 4.—A check from the insurance company makes this farmer feel good at last. It could be the outcome in all the cases in the other illustrations.

successful, the insurance eventually may become available to all farmers.

Federal crop insurance guarantees the farmer an amount per acre that is approximately equal to his cash expenses. Although some quality protection is included in the insurance, there is no price guarantee. Premiums collected from farmers are expected to balance payments to them over a period of years; the costs of administering the program are borne by the Federal government.

Anyone who wants to obtain this insurance may find out from his county agricultural agent or Production and Marketing Administration committee whether the insurance is available in his county.

LIABILITY INSURANCE

Liability insurance pays any court judgment (up to the limits of a policy) that might be obtained by someone else who sued a farmer because of an accident of the type covered by the policy. The possibility that a farmer might lose his farm or his life's savings to satisfy a judgment is a risk which should be insured against if it is possible to do so. The risk may seem small, but the amount involved could be large.

A man must be proved liable before a judgment can be rendered against him in court; but to defend himself in a suit is usually inconvenient and expensive. A person who has liability insurance will be defended in court by his company, and it will pay the costs of the defense and the court, and any judgment up to the amount stated in the liability policy.

Such policies now usually include medical payments to the injured party, regardless of who is responsible for the accident, and no extra yearly payment is charged for this. But there is extra cost if this provision is made in an automobile liability policy (p. 10).

AUTOMOBILE AND TRUCK INSURANCE

The main forms of automobile and truck insurance are (1) public-liability and property-damage insurance, which protects you if there is a damage suit because of injury to a person or damage to the property of others by an automobile or truck that is owned or driven by you, and (2) the insurance, which includes "comprehensive" and collision, under which you are reimbursed for damage to or theft of your own vehicle.

Public-liability and property-damage insurance in connection with an automobile (and truck) are getting to be more and more necessary, to protect yourself against lawsuits and because of certain laws in most States which make the Secretary of State or some other official your agent when you use the highways of the State. For instance, if you should be in an accident while in another State, it might be very costly and inconvenient for you to appear there if you were sued and had to defend yourself in court. A resident of that State, if injured by you, needs only to serve notice on his State official, who then gives you notice by registered mail to appear in your own defense. If you have liability insurance, the company will defend you, and will pay all costs even for your transportation if necessary, and any judgment that may be rendered up to the limits of your policy.

The three kinds of automobile liability insurance commonly sold are (1) bodily injury, (2) property damage, and (3) medical reimbursement. The first protects you financially if you or a member of your family injures someone else while driving your car or (usually) one lent to you by a friend. You would also be protected in case you were sued as a result of injury caused by your car while it was being driven by a friend to whom it had been loaned by you. The second protects you if, when driving your car, you cause someone else's property (including the automobile) to be damaged. The third is intended to reimburse the car driver for any medical, hospital, nursing, or funeral expenses, paid by him as a result of an accident connected with his automobile. Payments are often made to others, even though the car owner, who has the insurance, is not responsible for the accident. The first two kinds, particularly the bodily injury liability insurance, are considered most necessary and do not cost as much as the insurance on his own car, which was mentioned earlier.

The property-damage insurance usually cannot be obtained without the bodily-injury coverage. But the latter usually can be, though seldom is, obtained without the former. The phrase "5/10/5" is often heard in connection with liability insurance. It means that the policy protects the insured person up to $5,000 in the case of injury to one person, or up to $10,000 in case of injury to two or more persons in one accident, and up to $5,000 property damage. The bodily injury limits can be increased by paying a small additional premium, and this action is usually recommended.

The liability insurance is particularly necessary to safeguard your own property and assets and because of the laws about automobile responsibility in most States. In 18 States these laws require that the operator show evidence of financial responsibility *after* the first accident, for the sake of any future accidents. In another 25 States security is required in connection with an accident immediately after it happens, as well as for future accidents, so that insurance becomes almost necessary beforehand—for it could not be obtained afterward. In 4 States there are no automobile responsibility laws. In Massachusetts, automobile liability insurance is compulsory.

This evidence of financial responsibility is required in order to make sure that any court judgment against the operator of the automobile or truck will be paid. The courts appear to be rather kindly disposed toward injured people, and are likely to grant them damages. It has been reported that in 95 percent of the court cases involving injury something is paid to the injured person.

"Medical reimbursement" insurance is intended to reimburse the car operator for any medical, hospital, nursing, or funeral expenses paid by him because of accident in connection with the ownership and operation of an automobile. Payments are often made by the company directly to a third party, or the injured person, or a doctor. In most States the coverage has been broadened to include all passengers as well as the driver, regardless of who is responsible for the accident. The cost of this protection is usually about $3 or $4 a year for $500 worth of insurance. As the car owner, his family, and any passengers, are covered regardless of who is responsible for an accident, the protection is practically a "blanket" accident policy in con-

nection with driving an automobile. It is popular with car owners.

Liability insurance on a tractor can be obtained either in a separate policy, or existing insurance on a car or truck can be extended to cover it at extra cost. Where a tractor is used a lot on the highway, insurance on it may be particularly desirable.

OTHER LIABILITY INSURANCE

Although automobile and truck liability insurance is perhaps the most necessary "third party" insurance for the farmer, there are other kinds he may need or want. Casualty insurance companies, both stock and mutual, offer a *farmers' comprehensive personal liability policy*, which protects the farmer in case of lawsuits against him by the general public resulting from accidents in which he might be liable. For an extra payment, the insurance can include liability in connection with the business activities of the farmer or to household employees. This personal-liability policy protects a farmer against suit over injury caused by his dog or other animals, as well as personal acts of the farmer or members of his family while on or off the farm. Full-time household employees are charged for at the rate of about $2.50 each per year. Usually a 3-year policy can be had at a cost of two and a half times the yearly premium. An employer's liability policy is needed to protect the farmer from lawsuits resulting from work accidents to hired help.

As was mentioned on page 9, medical reimbursement insurance is included at no extra cost in the farmers' comprehensive personal liability policy and in the employer's liability insurance, which is explained in the next paragraph.

Employer's liability insurance protects the employer in case of a suit by an employee who is injured while at work. From the standpoint of the farmer, such insurance provides protection about equal to that provided by workmen's compensation insurance, which is discussed next, except that it does not provide for payments to the injured employee. This employee must first prove negligence by, or the responsibility of, the farmer and be awarded a judgment against the farmer in court in order for the insurance company to pay him under the policy.

Workmen's compensation insurance assures the employee that he will receive certain "benefits" or payments set up by law, in case he is injured, if he agrees not to sue his employer. In this sense it protects the farmer against claims or court awards arising from injury to hired help, just as employer's liability insurance does. Yet workmen's compensation insurance generally costs no more than straight employer's liability insurance without the worker benefits. It is generally believed that this "double-acting" protection is the best form of insurance for a farmer, as well as an industrial employer, since the question of who was negligent is not considered by insurance companies in making settlements.

Except under certain conditions in a few States, farmers are not required to take workmen's compensation insurance. They may wish to do so, however, in these and other States (but Alabama, West Virginia, and Wyoming do not allow this). In five States (Nevada, North Dakota, Ohio, Oregon, and Washington) the insurance may be

obtained only from an insurance company that is operated by the State. In 11 other States (Arizona, California, Colorado, Idaho, Maryland, Michigan, Montana, New York, Oklahoma, Pennsylvania, and Utah) the insurance is offered both by private insurance companies and by State companies. In the remaining States the insurance can be obtained only from private companies.

The payment for the insurance averages about 2 percent of the pay roll, but there is a minimum charge of $25 or $30 in most States. This means that unless a farmer has a pay roll of, say, $1,250 or $1,500, his insurance would cost more than the 2 percent of wages. If board and lodging are furnished, they are included as part of the pay roll. A minimum premium is not always charged by the State companies.

Farmers in any State may obtain insurance somewhat like this from private companies. It is in the form of a "voluntary compensation endorsement" to an employer's liability policy. This insurance is similar to workmen's compensation insurance except for a small extra charge if the $25,000 liability limits of the workmen's compensation policy are desired, and except for a few exclusions not present in the workmen's compensation policy (such as double indemnity in case the State law specifies it in violation of the employment of minors). It should be understood that the benefit payable to an injured employee (the amount of which depends on the extent of injury) must be paid in full by the company. The limits of liability referred to are those up to which the company will protect the farmer in case his injured employee refuses the benefits and decides to sue him instead. An advantage of the voluntary compensation arrangement, on the other hand, is that a farmer probably would be able to insure only some of his employees if he preferred, whereas if he chooses to come under his State's compensation act he would have to insure all of them under a workmen's compensation insurance policy.

Workmen's compensation insurance premiums are always, and employer's liability insurance premiums are generally, based on the pay roll, subject to a minimum charge. But a few companies write the employer's liability insurance on the basis of so much per year for each worker.

LIFE INSURANCE

Life insurance is different from the other forms of insurance in that the event insured against (death) is sure to come. Only the time of it is uncertain. The likelihood increases year by year. But the probability of death is measured by mortality tables, so that rates depend on age and are more exact than in other forms of insurance.

Even though death rates do increase with age, the company can calculate a "level" or average premium which each policyholder in any group should pay each year. So that this premium will be enough to pay claims later on—when everyone has grown older—it must be more than is actually necessary to pay the claims in the first years of the policy. The excess in these early years is accumulated with interest, and is used to pay claims later when the premium is no longer enough to meet the claims at the higher death rates. These "extra" payments make up what is called a "legal" reserve, since State laws govern them and how they may be invested until they are needed.

These reserves also partly explain why policies have cash-surrender values. The company merely pays back the excess—with interest—by which it has been overpaid the farmer's share of mortality costs in earlier years. But the amount of "savings" included with the protection also helps to decide the cash-surrender value. Next we consider the various types of policies and how they differ in this respect.

TYPES OF POLICIES

Life insurance may be for a fixed term of years or for life. When a policy provides protection for a fixed number of years, usually 5, 10, 15, or 20, it is called *term* insurance. This is the cheapest form of insurance because no savings are included in the premium.

A policy for life is called an *ordinary life policy.* The premium always remains the same, and the insured person pays it each year as long as he lives. The cash-surrender value increases each year.

A *limited-pay life* policy provides protection for life, like the ordinary life policy, but it is paid for over a certain number of years, usually 20 or 30. The premium includes enough savings so that by the end of that time the interest on the money will carry the policy. Other forms of limited-pay life policies are those that are paid up at some future age, for example, one that is "paid up at age 65" or "* * * at age 85." One of these policies permits the insured person to pay for his whole life protection in full, before he reaches extreme old age.

Enough savings are included in *endowment* insurance, along with the cost of the protection, so that by the end of the specified time (20 years in the case of a 20-year endowment policy) the value of the policy will have been accumulated. When it is paid to the insured person the contract has been fulfilled. There is no more insurance. If the one insured has paid all of his premiums, and if he dies before the policy expires, the face amount of the policy is paid to his widow or other beneficiary. Such payment, of course, includes the savings; but it should be remembered that the premium was calculated on that basis. Looking at it one way, the policyholder has been charged only for the amount of insurance that is actually necessary each year to make up the difference between his accumulated savings and the face amount of his policy. If, at death, the savings were paid in addition to the face amount, a much higher premium would be necessary.

Some farmers may find it more profitable to put their extra money back into their farms, rather than into savings policies. Some idea of the extent to which savings and protection are mingled in endowment insurance is provided when the "pure-premium" cost of a 20-year endowment policy, taken out at age 35, is divided into its two parts. About three-fourths of the annual premium goes into savings, while only one-fourth pays for protection.

Many other names are used at times for policies which combine two or more of the basic policies described above. When term insurance in reducing amounts is combined with ordinary life insurance, the contract is called a "*family income*" policy. Under it, if the insured person dies, a monthly income is paid to his widow or other beneficiary for the remainder of the income period originally selected and, in addition, the face amount of the policy (usually the amount of the ordinary life insurance) at the end of that time. As the time

during which the payments would continue is constantly diminishing, there is less protection later on than at first. The family income policy is particularly useful for the purpose of paying off a debt which is being paid off by regular installments. The amount of the term insurance can be geared quite closely to the balances that will be due later on the mortgage, so that the cost for the minimum protection needed is kept as low as possible.

WHICH KIND TO USE?

Only a brief indication can be given here to help a farmer decide what kind or kinds of policy to use. As one example: If a man owes a balance on his farm and wants to leave it free of debt to his wife in case he dies, he needs term insurance for the amount of the mortgage or nearly that. This term insurance should be of the *renewable* type, meaning that it can be renewed (of course at the higher rate for the later age) regardless of the state of his health at that time. If it is also *convertible* it can be changed over to other insurance without a medical examination, but then he will have to pay higher premiums.

As an illustration, if you want insurance to pay off a debt in case you should die, and the debt is being reduced by regular payments, you can try to fit 5-year term insurance to the amortization schedule as closely as possible. If the outstanding principal is now $5,000 you will need that much 5-year term insurance. If in 5 years the balance will be $3,000, you can renew your insurance at that time for that amount. You might start out with two policies, one for $2,000 and the other for $3,000. There would be $5,000 worth of insurance at first. The $2,000 policy could be dropped at the end of the first 5 years, and the $3,000 policy could be renewed. Moreover, premiums on each of the policies could be paid each year (thus making a saving) by paying only a partial year's premium on one of them at first, so that after that the premium-due dates would come at different times. The renewable feature is almost necessary in connection with term insurance. You may feel that the family-income policy, previously described, is even better for you in connection with a debt that is being reduced by regular payments, if you also need the ordinary life insurance with which it is combined.

Let us restate this fact: Term insurance lays stress on protection and is the cheapest form of insurance for a short time. It is useful if a person needs a lot of protection for just a few years.

The ordinary life insurance policy is usually the best for someone who is most interested in leaving something to his heirs and who has other ways of investing his money. A 20-payment life or other limited-payment kind of policy is used by one who wants to pay up his insurance in full before he is old or before his earning power is less. As the premiums are higher than for the ordinary-life policy, although the death benefits are the same, there is greater savings, and so the cash-surrender values are built up faster. This means that in an emergency more can be borrowed on a limited-pay life policy than on an ordinary-life policy, if both were taken out at the same age and are for the same amount. As the loan privilege is part of the contract, the insurance company can be used like an emergency bank. Banks will usually loan up to the full cash-surrender value of a policy.

They merely accept the policy as security under an assignment, which is canceled when the loan is repaid.

As the endowment policy combines protection for a certain term of years with investment, it costs more. Endowment insurance is good for a salaried man who does not have many safe ways of investing his savings or who finds it hard to save money. It is often used to accumulate funds to send a child to college. But it is probably better to have the insurance on the father's life than on the child's, particularly if the family needs insurance against loss of income if the breadwinner should die.

Most breadwinners need some life insurance. How much and what kinds depend upon his circumstances and the circumstances in which his death would leave his family.

Things should be arranged so that the dates for paying the premiums on insurance policies will come soon after the dates when the insured person gets his income or crop returns.

SOME POLICY PROVISIONS

Perhaps the two most important provisions of a life insurance policy relate to (1) the disposition to be made of the cash surrender value if the policy is dropped and (2) how the money from the policy will be paid by the company if the insured person dies. Each of these matters is here considered.

On page 12 we saw how the payment of a level annual premium creates a reserve. This reserve may now be thought of as credit to individual policyholders which may be recovered if and when their policies are dropped.

This credit (often called the nonforfeiture value of a policy) is the amount of the reserve minus (usually) a small surrender charge, which is necessary to take care of expenses. Except for term insurance, the longer a policy has run the greater is its cash-surrender value. Of course no such value is left in an endowment policy after its face amount has been paid to the insured person. Any amount up to the cash-surrender value may be borrowed, at interest, from the company.

If a policy is dropped after it has run for 3 years, or sometimes 2 years, it will have a cash value. This value may be taken as a lump sum or may be used to buy insurance. The ways of getting the value as insurance are (1) as paid-up insurance for reduced amount, (2) as extended-term insurance, and (3) as a premium loan.

The other important group of provisions in standard policies relates to the methods of settlement. Practically all policies now provide for a choice between (1) the lump-sum payment of the face amount of the policy upon the death of the insured person, and (2) settlements which guarantee an income, or (3) a combination of the two. If one of these settlements is chosen by the insured person, he may change it while he lives; but his choice cannot be changed by the beneficiary after the insured person dies. But if he has not selected a monthly income settlement, his widow or other beneficiary may choose one at the proper time instead of a lump-sum payment. An insurance company makes no direct charge for this service as an executor.

The choices are also available to an insured person who lives to see his endowment policy mature and who wants to receive the face

value, along with interest, as a retirement income payable to himself. Or he may let it accumulate at interest, to be paid later as a lump sum or in installments to his beneficiary. The choices are also available (with some limitations) to those who cash their policies for their surrender value and who want to receive their money in installments rather than in one sum. There is usually a choice as to how the installments are to be made.

The best arrangement can be selected when the insurance is taken out or it can be decided on later. The insurance agent can handle the matter or the insured person can write directly to the home office of the company about it. He will be asked to forward the policy to the company for endorsement of the agreement, or a form that sets forth the agreement will be sent to him to be attached to the policy.

GROUP LIFE INSURANCE

Many purchasing and marketing cooperative organizations have arranged for group life insurance for their members. In each case the cooperative usually has returns or savings to distribute to its members, and the insurance premiums are subtracted from them and paid to the life insurance company.

One small purchasing cooperative charges the insurance premiums to its members each month on the books, and pays the total of them to the company each month. The company guarantees to refund any money that can't be collected later. The usual arrangement is for members to be given life insurance based on the amount of their purchases through the association during the previous year.

No physical examination is required in group life insurance, death from all causes is covered, and usually members at any age are insured. An older member usually does not receive the same amount of insurance as a younger member for the same dollar volume of merchandise bought through the cooperative. For example, a member 35 years old who bought $400 worth of merchandise through a cooperative last year received 70 percent of this amount, or $280 worth of insurance, this year, as a patronage dividend; whereas a member aged 46 who made the same amount of purchases received $220 worth of insurance.

When a purchasing cooperative wants to adopt such a plan, the insurance company asks it to send in a list of its members with their addresses, and the amount of their individual purchases during the previous year. Claims paid by the company are based on the purchases given on this list. At the end of each policy year, if the mortality experience has been favorable, a part of the premium is returned to the cooperative.

ANNUITIES

Everyone wants security against the time when he or she will be too old to work. For there is always the chance of outliving our savings. As a person cannot predict when he will die, he does not want to spend more than the interest on his money if he can help it. He doesn't want to be left without anything. An insurance company can pay him interest on his money and can return to him part of his principal as well; for if he lives longer than the average, which

would mean the company would "lose" on him, this loss will be offset by the gain on others who die before their principal has been returned to them.

An *immediate* annuity is one that is paid for in a lump sum. It cannot be bought "on time," because the payments by the company begin at once and are made monthly or yearly. It may be on one life or on two (or more) lives. These immediate annuities are for older people who have had time to accumulate enough savings to buy them. Under a joint life and survivorship immediate annuity the payments to the survivor of two lives is the same as when both were alive. Of course where two lives are involved, an annuity costs more than one that calls for the same payments on one life. A joint life and two-thirds survivorship annuity is one which pays the survivor only two-thirds as much as was paid while both were living.

Immediate annuities, whether on single or joint lives, may also be classified as either life annuities or refund annuities. A life annuity is one that pays no refund if the annuitant (or annuitants) dies early. A given purchase price will buy a somewhat smaller monthly income as a refund annuity than as a life annuity, because under the former the balance of the purchase price is returned to the annuitant's estate if he dies early. (Term insurance in decreasing amounts is included in the purchase price.) Anyone who is thinking of buying this kind of annuity should be particularly careful as to whether annuity payments stop at death or continue for a guaranteed period.

Many annuity buyers select the refund rather than a life annuity, even though they could get more retirement income the other way. *Deferred* annuities, sometimes called retirement annuities, are usually sold to younger people. They are paid for during the working years, but the annuity payments begin at some selected future retirement age. In the meantime, the installments earn interest as savings. Because the benefits start in the future, there is plenty of time to change the type of contract if this is wished. If death comes before the retirement age, the principal is paid back with interest. There is no agent's commission to pay when the conversion to an immediate annuity is made at the retirement age.

There is also the *survivorship* annuity. Under it, an insured person pays the premium during the joint lifetime of himself and his beneficiary. Immediately upon his death, a regular income is paid to the beneficiary (annuitant) during his or her lifetime. If the beneficiary dies first, the contract is canceled without refund. It amounts to life insurance with a chance to choose in advance a monthly income settlement for the beneficiary. This kind of annuity is useful to the person who has a much older person depending on him for a living. Its cost is relatively low because the chance is that the beneficiary will die considerably before the insured person or not long afterward. As a survivorship annuity is really life insurance, a medical examination is required of the person to be insured but not of the beneficiary. No medical examination is required in connection with a straight annuity.

The farmer who has a mortgage on his farm and who has gone heavily into debt to stock and equip it particularly needs insurance against the hazards that would hurt him most financially. Relief from worry makes for better farm planning.

U. S. GOVERNMENT PRINTING OFFICE: 1950